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SUBJECT: Nabucco Pipeline Investment Decision by end-2010;
Impending IGA on South Stream

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¶1. (SBU) SUMMARY: In informal discussions, OMV and Nabucco Company contacts have reiterated their expectation that the consortium will launch the project ("final investment decision") by the 4th quarter of this year, with initial gas deliveries by the end of 2014. The consortium continues to expect start-up gas to come primarily from the Shah Deniz II gas field in Azerbaijan: the BP-led Shah Deniz II consortium is reluctant to start its second production phase before the Nabucco decision, but contacts here are optimistic Azerbaijan will sign with Nabucco since the "European offer" is better than Russian alternatives. The EBRD and EIB will co-finance the pipeline, but each Nabucco Consortium member will also have to raise EUR 480 million, with Romania and Bulgaria likely to need a government guarantee for their share. There are indications Austria will soon sign an IGA on participation in the competing South Stream pipeline. END SUMMARY.

SHIPPER CONTRACTS WILL DETERMINE NABUCCO INVESTMENT DECISION

¶2. (SBU) Emboffs spoke at length to Nabucco Company spokesman Christian Dolezal and briefly with the head of OMV's gas business, board member Werner Auli. They told us that "contrary to some media reports and expert opinions" pipeline preparations are still on track. While production, transit, and delivery issues are closely entwined, the Nabucco Company and OMV stress that Nabucco and its shareholders will only operate the pipeline, whereas gas shippers are negotiating transport contracts with suppliers including NOCs in Azerbaijan and Turkmenistan. Dolezal said enough gas traders are interested and gas supply contracts should be signed this year; a "heads of agreement" has already been drafted. Those contracts will be "determining" for the Nabucco final investment decision to be made by the fourth quarter this year.

SHAH DENIZ II CONSORTIUM: WAITING GAME

¶3. (SBU) Dolezal confirmed privately (and Auli has said publicly) that Shah Deniz II gas is sufficient to launch Nabucco. Dolezal referred to a January 15 public statement by Rovnag Abdullayev (president of SOCAR, Azerbaijan's NOC) that his country "is ready to provide gas for Nabucco." Dolezal opined that SOCAR is waiting to commit until it has the "maximum safety" that Nabucco will be built.

¶4. (SBU) Dolezal identified a potential snag: the "reluctance" of the Shah Deniz II consortium (centered on BP, Statoil, and SOCAR) to commit to a date for the second production phase due to so-called "transit contract problems" to Europe. They might wait until after the Nabucco investment decision, Dolezal speculated. The Nabucco Company would like the EU to take a more coordinated approach in the Caspian Region -- akin to the Russians and Chinese -- which would

demonstrate more commitment on Nabucco. Auli is somewhat more optimistic: Russian offers to Azerbaijan and Turkmenistan are less lucrative than Nabucco's. Since the Shah Deniz consortium consists of highly professional companies, it would commit to providing gas for Nabucco, Auli opined -- pointing out that the Shah Deniz Consortium has a time-limited production concession in Azerbaijan, so it can't afford to wait forever.

TURKEY'S BOTAS POISED TO BUILD PIPELINE CONNECTOR TO IRAQ

15. (SBU) The Embassy's interlocutors said that Turkey's commitment to Nabucco following the July 2009 Nabucco IGA has been excellent. Dolezal said Turkish Botas is considering planning and constructing the necessary pipeline to Iraq: once such a pipeline is up and running, Iraq could deliver 10 bcm/year to Nabucco, he estimated.

FINANCING: GOVERNMENT GUARANTEE NEEDED IN ROMANIA AND BULGARIA

16. (SBU) Financing for Nabucco is on track, Dolezal said. Each of the six consortium partners will have to raise EUR 480 million. In the case of the "financially weak" Bulgarian and Romanian companies, a government guarantee is a prerequisite, Dolezal said. EBRD, EIB and commercial banks have agreed to co-finance the project within the overall framework (the commitments by the consortium partners). Auli estimated IFIs and commercial banks will contribute EUR 5.5 billion to the overall EUR 8 billion project cost.

17. (SBU) Dolezal said a "thorny issue" might be environmental impact assessments, which may trigger popular opposition in Austria and some CEE countries. (OMV contacts disagreed, saying that the consortium has been meticulous in its preparations).

SOUTH STREAM: IGA WITH AUSTRIA TO BE SIGNED SOON?

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18. (SBU) Embassy contacts say Russia and Austria will likely conclude soon an intergovernmental agreement between on Austria's participation in the South Stream project. COMMENT: While choosing words carefully, contacts imply that OMV is tepidly interested in South Stream, but must keep its Russian ties strong over the next few years. END COMMENT.

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